STATE OF CALIFORNIA EDMUND G. BROWN JR., Governor

PUBLIC UTILITIES COMMISSION
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SAN FRANCISCO, CA 94102-3298

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TO PARTIES OF RECORD IN RULEMAKING 12-11-005

This is the proposed decision of Commissioner Rechtschaffen. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's September 28, 2017 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

/s/ ANNE E. SIMON
Anne E. Simon
Acting Chief Administrative Law Judge

AES:ek4
Attachment

Decision **PROPOSED DECISION OF COMMISSIONER RECHTSCHAFFEN**
(Mailed 8/25/2017)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking Regarding Policies, Procedures and Rules for the California Solar Initiative, the Self-Generation Incentive Program and Other Distributed Generation Issues.	Rulemaking 12-11-005

DECISION ESTABLISHING EQUITY BUDGET FOR SELF-GENERATION INCENTIVE PROGRAM

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DECISION ESTABLISHING THE SELF GENERATION INCENTIVE PROGRAM EQUITY BUDGET FOR PROJECTS LOCATED IN DISADVANTAGED COMMUNITIES AND OTHER QUALIFYING CUSTOMERS

Summary

This decision establishes that 25% of the funds collected for energy storage projects through California's Self-Generation Incentive Program (SGIP) shall be reserved for the SGIP Equity Budget, which will be awarded only to projects that meet specific criteria. This change will take effect beginning with SGIP energy storage Step 3. No other changes are made to the SGIP in this decision. The proceeding remains open.

The SGIP Equity Budget will be administered by the Program Administrators[1] in the following manner:

- Eligibility:
    - State and local government agencies, educational institutions, non-profits, or small businesses are eligible for the incentives if they are located in either: census tracts determined by CalEnviroScreen to be in the 25% most affected statewide or low-income communities, as defined.
    - Low-income housing residents, as defined, throughout the utilities' service territories.
- Budget: 25% of the funds collected for SGIP energy storage incentives beginning with Step 3 will be reserved for eligible projects;
- Implementation:

[1] The Program Administrators are Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), Southern California Gas Company (SoCalGas), and the Center for Sustainable Energy (CSE) on behalf of San Diego Gas & Electric Company (SDG&E).

- o For incentive Step 3 and each subsequent Step, each Program Administrator will take 25% of its total energy storage incentive budget (both small residential and large-scale) and create a new SGIP Equity Budget only accessible to eligible customers.
- o The small residential energy storage incentive budgets and large-scale energy storage incentive budgets for Step 3 and each subsequent Step shall be proportionately lowered to fund the new SGIP Equity Budget.
- o Available SGIP Equity Budget shall be available and allocated to small residential energy storage projects (projects that are less than or equal to 10 kilowatts in size) or large-scale energy storage projects without limits.
- o Each developer accessing the SGIP Equity Budget in a given Step must not reserve incentives in excess of 20% of the total SGIP Equity Budget for that Step.

1. Background

1.1. Legislative and Procedural History

California's Self-Generation Incentive Program (SGIP) was established in 2001 by the Commission in Decision (D.) 01-03-073 in response to Assembly Bill (AB) 970 (Ducheny, Stats. 2000, Ch. 329). AB 970 directed the Commission to provide incentives for distributed generation resources to reduce peak energy demand. Since 2001, the Legislature has refined and extended SGIP several times. During 2014 and 2015, the Commission acted to extend SGIP funding through 2019 and updated program eligibility criteria related to greenhouse gas (GHG) emissions, pursuant to SB 861 (Committee on Budget and Fiscal Review, 2014).[2] In 2016, the Commission adopted D.16-06-055, which made significant

[2] The decisions implementing these changes are D.14-11-001 and D.15-11-027.

programmatic changes for how SGIP incentive dollars are awarded and other program refinements. On April 6, 2017, the Commission adopted D.17-04-017 doubling the budget for SGIP for years 2017-2019, pursuant to AB 1637 (Low, 2016).

1.2. Budget Summary

SGIP is funded through annual collections from customers in the amount of $166 million per year through 2019.[3] SGIP allocates 85% of the funds to energy storage technologies. The total energy storage incentive budget for Steps 3-5 is estimated at $220 million, which results in SGIP Equity Budget of approximately $55 million.[4]

1.3. Assigned Commissioner's Ruling

On June 2, 2017, the assigned Commissioner issued a ruling seeking party comment on two proposed changes to SGIP.[5] The Assigned Commissioner's Ruling (ACR) sought feedback from parties on: 1) a proposal to reserve 20% of SGIP funds for projects that are located in disadvantaged communities, and 2) proposed program eligibility criteria for energy storage systems aimed at further aligning the operation of SGIP-funded energy storage systems with conditions on the electric grid.

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[3] *See*, D.17-04-017.

[4] This is only an estimate. Actual amounts will be higher as awarded incentives in earlier steps to projects that do not get built go back into the program.

[5] The Assigned Commissioner's Ruling can be found at the link "Docket Card" on the Commission's website: http://docs.cpuc.ca.gov/SearchRes.aspx?DocFormat=ALL&DocID=171806907.

Numerous parties filed comments[6] to the ACR on June 22, 2017 and reply comments on June 27, 2017.[7] The ACR's proposal for a disadvantaged community budget included the following design elements:

- Definition: A disadvantaged community is any census tract that ranks in the statewide top 25% most affected census tracts in the most recently adopted version of the environmental health screening tool, CalEnviroScreen.[8]
- Budget: 20% of the budget allocated to Steps 3-5 for energy storage projects and Steps 2-3 for renewable energy projects shall be reserved for projects located in a disadvantaged community.
- Implementation: Each PA's disadvantaged community budget will be equal to the proportion of disadvantaged communities in that PA's service territory out of the total number of disadvantaged communities across all four PA service territories.

We address those comments concerning the budget reserved for disadvantaged communities in detail below. Comments concerning SGIP

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[6] Parties that filed comments include the following: Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E); Southern California Gas Company (SoCalGas); Center for Sustainable Energy (CSE); Office of Ratepayer Advocates (ORA); GRID Alternatives; California Solar Energy Industries Association (CalSEIA); California Energy Storage Alliance (CESA); Tesla, Inc (Tesla); Advanced Microgrid Solutions (AMS), Green Charge Networks, LLC (Green Charge) and Stem, as Joint Storage Parties; Direct Access Customer Coalition; and Marin Clean Energy.

[7] Parties that filed reply comments include the following: PG&E; ORA; GRID Alternatives; CSE; CESA; Robert Bosch LLC (Bosch); Tesla; and Direct Access Customer Coalition.

[8] CalEnviroScreen was developed by the Office of Environmental Health Hazard Assessment (OEHHA) on behalf of the California Environmental Protection Agency (CalEPA) pursuant to Section 39711 of the Health and Safety Code. The current version of the tool, CalEnviroScreen 3.0, was released on January 30, 2017. Information about CalEnviroScreen is available here. https://oehha.ca.gov/calenviroscreen.

eligibility criteria for energy storage systems may be addressed in a subsequent decision.

2. Discussion

Today's decision establishes the SGIP Equity Budget to ensure that a significant portion of the SGIP budget will be reserved for projects that are located in disadvantaged and low-income communities and for customers that meet specific eligibility requirements. The Commission makes this programmatic change on our own motion with the objective that these investments will: 1) bring positive economic and workforce development opportunities to the state's most disadvantaged communities; 2) help reduce or avoid the need to operate conventional gas facilities in these communities, which are exposed to some of the poorest air quality in the state;[9] and 3) to ensure that low-income customers, and non-profit or public sector organizations in disadvantaged or low-income communities have access to energy storage resources incentivized through SGIP. From its inception a goal of SGIP has been to reduce peak electricity demand, which is more costly to consumers and traditionally has a relatively high emissions intensity.

Reserving a portion of the SGIP budget for projects that achieve these objectives is consistent with the statutory intent of the program[10] and is

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[9] On its website, OEHHA notes that CalEnviroScreen scores are mapped so that different communities can be compared. An area with a high CalEnviroScreen score is one that experiences a much higher pollution burden than areas with low scores. *See, CalEnviroScreren 3.0: Update to the California Communities Environmental Health Screening Tool.* (January 2017) https://oehha.ca.gov/media/downloads/calenviroscreen/report/ces3report.pdf.

[10] SGIP is established in Pub. Util. Code § 379.6. Pursuant to § 379.6 (a)(1):

> It is the intent of the Legislature that the self-generation incentive program increase deployment of distributed generation and energy

Footnote continued on next page

consistent with numerous actions by the Legislature to ensure that disadvantaged communities in California benefit from clean energy programs. For example, in AB 327 (Perea, Stats. 2013), the Legislature directed that the next generation of Net Energy Metering (NEM) tariffs or contracts include specific alternatives designed for growth among residential customers in disadvantaged communities.[11] AB 693 (Eggman, Stats. 2015) establishes a program to fund solar roofs on multifamily affordable homes in disadvantaged communities.[12] And in SB 350 (De Leon, Stats. 2015) the Legislature established an overarching integrated resource planning process for electric load-serving entities that, in part, must "minimize localized air pollutants and other greenhouse gas emissions, with early priority on disadvantaged communities identified pursuant to Section 39711 of the Health and Safety Code," as well as mandating that the Commission, along with the California Energy Commission and California Air Resources Board, identify barriers faced by disadvantaged communities to participation in clean energy and clean transportation programs.[13]

Today's decision harmonizes SGIP with this legislative intent and other efforts to deploy clean energy resources in an equitable manner. We note that in

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> storage systems to facilitate the integration of those resources into the electrical grid, improve efficiency and reliability of the distribution and transmission system, and reduce emissions of greenhouse gases, peak demand, and ratepayer costs. It is the further intent of the Legislature that the commission, in future proceedings, provide for an equitable distribution of the costs and benefits of the program.

[11] *See*, Pub. Util. Code § 2827.1(a)(1).

[12] *See*, Pub. Util. Code § 2870.

[13] *See*, Pub. Util. Code § 454.52 (a)(1)(H).

the future the way in which we determine how to deploy clean energy resources in an equitable manner may differ from the methods employed in this decision.

Parties offered detailed comments on the proposal set forth in the ACR, which included a definition of "disadvantaged community" and a methodology for allocating the budget across the PAs. Parties made additional program design and administration recommendations which have been carefully considered in the development of the SGIP Equity Budget.

2.1. SGIP Equity Budget

The proposal set forth in the June 2, 2017 ACR sought comments on four design elements of the budget reservation: definition of "disadvantaged community," the size of the budget, the resource categories subject to a budget reservation, and a methodology for allocating the budget across the PAs. We address each element below, as well as other eligibility and implementation details raised by parties.

2.1.1. Purpose and Scope

The ACR proposed fairly broad eligibility criteria such that projects could gain access to the reserved funds if the customer's project was located in a disadvantaged community, defined in the ACR as any census tract that ranks in the statewide top 25% most affected census tracts in the most recently adopted version of the environmental health screening tool, CalEnviroScreen.[14]

Numerous parties highlight the importance of aligning the eligibility criteria with the Commission's objectives for this specially designated budget. CESA, CalSEIA and GRID Alternatives point out that directing investments to

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[14] Assigned Commissioner's Ruling on Potential Refinements to the Self-Generation Incentive Program (June 2, 2017) at 4.

CalEnviroScreen designated communities does not ensure participation from low-income customers that might not otherwise access SGIP funds. Customers in disadvantaged communities can include large, well-capitalized companies as well as residents that do not meet any state or federal low-income definition.[15] It is also true that low-income residents live outside of the top 25% most disadvantaged communities as defined by CalEnviroScreen.[16] In light of this, GRID Alternatives and CalSEIA recommend that the SGIP Equity Budget use the eligibility criteria established for other energy equity programs under the Commission's jurisdiction, most notably the AB 693 program (Eggman, Stats. 2015, ch. 582), the Multifamily Affordable Solar Housing (MASH) program, and the Single-Family Affordable Solar Housing (SASH) program.[17] Related to this, several parties recommend that a means test[18] should also be included for projects located in disadvantaged communities. Consistent eligibility criteria where practicable are reasonable and can simplify program participation.

[15] *See, e.g.,* comments of PG&E at 4.

[16] Comments of GRID Alternatives at 6-7; Comments of CESA at 5 ("only about 20% of the affordable multi-family properties in California [as defined by statutes governing California Solar Initiative program] are located in disadvantaged communities identified by the CalEnviroScreen [citations omitted]").

[17] The AB 693 Multifamily Affordable Housing Solar Roofs Program is codified in Pub. Util. Code § 2870 and is being implemented in R.14-11-007.

[18] A "means test" is used to evaluate a customer's ability to pay without an incentive. When implemented a means test functions as an eligibility requirement. Parties that recommend a means test are CalSEIA, GRID Alternatives, PG&E, and CESA.

2.1.2. Eligibility Requirements

2.1.2.1. Disadvantaged and Low Income Community Project Criteria

For the purpose of the SGIP Equity Budget, the host customer of a project must be: 1) located in a disadvantaged community or low-income community; and 2) must meet one of the following customer criteria:

- Local or state government agency
- Education institution
- Non-profit organization
- Small business

Notwithstanding these criteria, low-income residential customers, as defined below, are eligible for the SGIP Equity Budget regardless of where they reside within their respective utility's service territory.

2.1.2.2. Definition of Disadvantaged Community

For the purpose of the SGIP Equity Budget, a disadvantaged community is defined as any census tract that ranks in the statewide top 25% most affected census tracts in the most recently released version of the environmental health screening tool, CalEnviroScreen. The ACR proposed this definition and no parties oppose it.

It is consistent with the definition established by the California Environmental Protection Agency pursuant to § 39711 of the Health and Safety Code, and as such, will be used for other energy programs under the Commission's jurisdiction including the AB 693 program.

In addition to the benefits of consistency with other programs, it will ensure that communities that experience much higher pollution burdens than other communities in the state are targeted by a ratepayer-funded clean energy program. This goal is consistent with several legislative and Commission program goals, as described previously.

Grid Alternatives recommended that we apply a broader definition where a disadvantaged community is defined as the top 25% of census tracts in each PA service territory or statewide, whichever is broader.[19] In light of our decision to expand eligibility criteria beyond disadvantaged communities, as defined by CalEnviroScreen, we favor the definition that is consistent with § 39711 of the Health and Safety Code.

2.1.2.3. Definition of Low Income Community and Low Income Residential Housing

As noted by CESA in their comments, the distribution of census tracts using the disadvantaged community definition described above is unequal across the four SGIP territories served by the PAs, and not all low-income customers live in those areas.[20] In order to ensure that the distribution of the SGIP Equity Budget funds is more geographically even, and to include low-income customers not currently captured by the CalEnviroScreen, it is reasonable to expand geographic eligibility for the Equity Budget beyond the statewide top 25% most affected census tracts as defined by CalEnviroScreen. We do so in two ways: by expanding geographic eligibility for the non-residential customer classes noted above to those located in a "low-income community," and by allowing "low-income residential customers" to access the SGIP Equity Budget regardless of where they happen to reside.

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[19] Grid Alternatives comments at 8.

[20] CESA comments at 3-5. *See also* PG&E comments at 3 ("[d]isadvantaged community does not necessarily mean low-income").

CESA and Tesla advocate for the inclusion of low-income communities in addition to the ACR's focus on CalEnviroScreen-defined disadvantaged communities.[21] This proposal is reasonable as it would ensure that low-income communities receive the benefits of the SGIP Equity Budget even if they are not disadvantaged communities per the CalEnviroScreen definition.

Only Tesla proposed a definition for "low-income community" per se, one where 80% of the households have incomes below 60% of the area median income.[22] While such a definition may have merit, it does not reflect legislative guidance on the issue as AB 693 uses that test to define whether a building – and not an entire community – is eligible for the AB 693 program. Therefore, we exercise our judgment to select a definition that reflects recent legislative guidance on this matter and allows for simplicity of administration.

For the purpose of the SGIP Equity Budget, a low-income community is defined in the same way as § 39713(d)(2) of the Health and Safety Code. That subsection defines low-income communities as census tracts with median household incomes at or below 80% of the statewide median income[23] or with median household incomes at or below the threshold designated as low-income by the Department of Housing and Community Development's list of state income limits adopted pursuant to Section 50093. In 2016, the Legislature applied this definition to projects funded by the state's Greenhouse Gas

[21] CESA comments at 5. Tesla reply comments at 2-3.

[22] Tesla reply comments at 3.

[23] CESA notes that using some percentage of area median income may be used to expand the definition of disadvantaged communities to include more low-income customers (CESA reply comments at 11).

Reduction Fund.[24] It is, therefore, a recent legislative finding on the way in which to define low-income communities for the purpose of administering a statewide program funding projects with goals similar to SGIP.[25] As it is currently part of the state's framework for allocating funds from the Greenhouse Gas Reduction Fund, it should be reasonably simple to administer.

We similarly rely on existing programs and statutory definitions to define low-income residential customers that are eligible for the SGIP Equity Budget regardless of where they live. Specifically, we rely on the definition of low-income residential housing as used in AB 693[26] where it is defined as a multifamily residential building of at least five rental housing units that is operated to provide deed-restricted low-income residential housing, as described in clause (i) of subparagraph (A) of paragraph (3) of subdivision (a) of § 2852 of the Public Utilities Code, and is either: 1) in a disadvantaged community or 2) a building where at least 80% of the households have incomes at or below 60% of the area median income, as defined in subdivision (f) of § 50052.5 of the Health and Safety Code.[27] Any customers living is such buildings will be eligible for the SGIP Equity Budget.

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[24] AB 1550 (Gomez, Stats. 2016, ch. 369)

[25] D.16-06-055 found that reducing greenhouse gas emissions was a programmatic goal of SGIP.

[26] CalSEIA and GRID Alternatives each mentioned AB 693 as providing language that could be used to define low-income customers eligible for the SGIP Equity Budget regardless of their location. Tesla supports using the AB 693 definition to minimize administrative difficulties (Tesla reply comments at 2).

[27] GRID Alternatives recommended adopting all eligibility requirements from Public Utilities Code § 2852(a)(3) (GRID Alternatives comments at 8). We decline to do so, and rather follow the AB 693's definition as the more recent legislative guidance on this matter.

In comments, CalSEIA argues that the Commission should ensure that customer living in low-income single-family homes, regardless of location, have access to the Equity Budget.[28] This is a reasonable addition to the definition of low-income residential housing as codified by AB 693 that we adopt above, as it would ensure that low-income residential customers that happen to live in single-family homes rather than multi-family dwellings also have access to SGIP Equity Budget funds. Therefore, an individual customer living in a low-income residence, as described in subparagraph (C) of paragraph (3) of subdivision (a) of § 2852 of the Public Utilities Code, also meets the definition of low-income residential customer for the purpose of the SGIP Equity Budget.

2.1.2.4. Definition of Customer Classes Eligible for the Equity Budget

In addition to the definition of low-income residential customer established above, we provide the following definitions of other customer groups eligible for the SGIP Equity Budget to resolve any ambiguity about their eligibility. We rely on existing definitions rather than creating new ones.

Some definitions are well known and not subjective, such as the definition of a state agency. This is not the case with business organizations, which can be measured based on electricity demand, the number of employees and/or gross annual revenues. For example, the Commission defines "small business" for the purpose of distributing greenhouse gas allowance revenues as any "commercial, industrial, or agricultural customers that typically use less than 20 kilowatts (kW) of maximum power in a month."[29] While attractive as an available definition,

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[28] CalSEIA comments at 2.

[29] *See,* D.12-12-033, pursuant to Pub. Util. Code § 748.5.

setting the eligibility criteria based on a relatively low electricity demand will likely limit participation from businesses well suited for an energy storage system. The California Department of General Services (DGS) defines small business as an independently owned business based in California with no more than 100 employees or annual gross revenues of $15 million.[30]

- Be independently owned and operated;
- Not dominant in field of operation;
- Principal office located in California;
- Owners (officers, if a corporation) domiciled in California; and,
- Including affiliates, be either,
  - A business with 100 or fewer employees; an average annual gross receipts of $15 million or less, over the last three tax years;
  - A manufacturer[31] with 100 or fewer employees; or,
  - A microbusiness. A small business will automatically be designated as a microbusiness, if gross annual receipts are less than $3,500,000; or the small business is a manufacturer with 25 or fewer employees.

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[30] The full definition is available on the DGS website:

http://www.dgs.ca.gov/pd/Programs/OSDS/SBEligibilityBenefits.aspx

[31] According to the DGS definition for Small Business Certification purposes, a manufacturer is a business that is both of the following:

- Primarily engaged in the chemical or mechanical transformation of raw materials or processed substances into new products; and
- Classified between Codes 31 to 339999, inclusive, of the North American Industrial Classification System (NAICS) Manual, published by the United States Census Bureau, 2007 edition.

The DGS definition is better suited for SGIP because it is based on the organization's resource capacity and not maximum electric demand and we adopt it as an initial definition.

The non-residential customer class definitions are as follows:

- Local governmental agency means any entity described by Public Contracts Code § 22161(f).
- State governmental agency means any entity described by Government Code §11000.
- Education institution means any institution that would otherwise be eligible for funding through the California Clean Energy Jobs Act (Proposition 39), or a college or university accredited to operate in California.
- Non-profit organization means an organization registered and in good standing with the California Secretary of State as a domestic non-profit entity.
- Small business means an independently owned and operated business as defined by the Procurement Division of the Department of General Services.

2.1.3. Budget Allocation Among Program Administrators

The ACR proposal allocated the SGIP Equity Budget based on the proportion of disadvantaged communities in that PA's service territory out of the total number of disadvantaged communities across all four PA service territories. Many parties commented that the proposed methodology was overly complex. Instead, parties such as SoCalGas and Tesla recommend an allocation that reflects existing SGIP allocation rules such that a PA's SGIP Equity Budget would equal a fixed percentage of the budget for that resource category. Given our decision to broaden the criteria beyond disadvantaged communities, defined as the top 25% most affected census tracts identified by CalEnviroScreen and the benefits in having program rules that are easy to understand and administer we agree that a fixed allocation is reasonable.

Therefore, each PA shall allocate 25% of its total energy storage incentive budget beginning with Step 3 to the Equity Budget. For example, if PG&E's total energy storage incentive budget for Step 3 is $49 million ($43 million for large-scale and $6 million for small residential), then 25% of that amount - $12.25 million – shall be allocated to the Step 3 Equity Budget. Each of the large-scale and residential budgets shall be reduced by 25% to accommodate the new Equity Budget for Step 3. Therefore, in this example, PG&E's large-scale energy storage budget for Step 3 would be $32.25 million and the small residential budget would be $4.5 million.

2.1.4. Resource Categories Subject to SGIP Equity Budget

The ACR proposed that 20% of the budgets for the energy storage categories and renewable generation resource category be reserved for disadvantaged communities. We first look at the budget resource category issue before turning to the percentage amount.

GRID Alternatives' comments on this topic suggest that the SGIP will be better served if the SGIP Equity Budget is limited to the energy storage category.[32] GRID Alternatives reasons that energy storage is the resource most likely to provide benefits to customers in disadvantaged and low-income communities and that these communities may not be suited for renewable energy generation technologies. Energy storage currently makes up the vast

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[32] GRID reply comments at 5-6.

majority of SGIP incentives reserved in 2017, and we have previously reserved approximately 80% of ongoing SGIP incentives for energy storage projects.[33]

In setting the SGIP Equity Budget the Commission must balance the objective to reserve a portion of SGIP funds for investments in disadvantaged and low-income communities, without imposing unnecessary limitations on otherwise eligible projects. Reserving budget for resources that are unlikely to be located in disadvantaged and low-income communities regardless of the budget structure do not advance the objectives of the policy addressed herein or SGIP's broader objectives. Setting the SGIP Equity Budget solely within the energy storage category budgets is reasonable and consistent with our objectives to ensure positive economic and workforce development opportunities to the state's most disadvantaged communities and to ensure that the cumulative impact of this investment can obviate the need to use conventional, polluting resources in these communities. Therefore, in response to comments by parties, we establish that the SGIP Equity Budget shall solely fund energy storage projects and that the funding for the SGIP Equity Budget shall solely come from budget allocations to energy storage incentives (not generation budget incentives).

Tesla, CSE and ORA question the merits of having a budget reservation for small residential energy storage systems.[34] CSE commented that "energy storage may not currently be the best option for reducing energy costs for disadvantaged or low-income residential customers." Tesla commented that a budget reserved

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[33] *See* D.16-06-055 and D.17-04-017.

[34] SGIP rules define small residential energy storage systems as systems sized 10 kW and smaller.

for residential, low income customers would likely go unutilized unless systems were fully subsidized. Tesla recommends allowing the SGIP Equity Budget to be utilized by SGIP-eligible energy storage project of any size. Allowing flexibility in this regard is consistent with our overall objective to ensure SGIP-funded energy storage projects are available to a diverse group of customers. Accordingly, this proposal is reasonable and is adopted. To be clear, all otherwise SGIP-eligible energy storage projects may access SGIP Equity Budget funds; but there is no minimum or maximum percentage for the small residential energy storage class of projects.

2.1.5. Budget Percentage Amount

The ACR proposed that 20% of the budgets for the energy storage categories and renewable generation category would be reserved for disadvantaged communities. Parties generally supported the 20% proposal. No parties opposed the 20% amount, although PG&E recommended convening a workshop and conducting further analysis before setting percentage amount.

Given our decision to apply the SGIP Equity Budget to a smaller total budget amount (*i.e.,* energy storage categories only), it is reasonable to modestly increase the percentage amount to 25% so that it approximates the absolute level of funding previously proposed by the ACR and generally supported by commenting parties.

To demonstrate, SGIP's Step 3 budget for energy storage is approximately $115 million. SGIP's Step 3 budget for generation is approximately $39 million. The ACR's 20% proposal would have created a total SGIP Equity Budget for Step 3 of $30.8 million. The revised 25% allocation from the energy storage incentive budget leads to a total SGIP Equity Budget for Step 3 of $28.75 million.

2.1.6. Developer Cap

In D.16-06-055, the Commission established a "developer cap" to ensure diversity within the program and prevent any single developer from obtaining an inequitable share of SGIP funds.[35] CSE recommends that incentives associated with projects eligible for the SGIP Equity Budget should not be subject to the developer cap in order to avoid setting barriers to projects in disadvantaged communities.[36] While we appreciate CSE raising this concern, the developer cap is an important element of SGIP and it would be premature to adjust the rule before we have experience with the SGIP Equity Budget. Therefore, each developer accessing the SGIP Equity Budget in a given Step must not reserve incentives in excess of 20% of the total SGIP Equity Budget for that Step.

2.1.7. Other Program Design and Implementation Issues

2.1.7.1. Incentive Level

Several parties raise the issue that projects eligible for the SGIP Equity Budget may require higher incentive levels than other projects.[37] CalSEIA recommends that a higher incentive rate be provided to low-income customers to incent greater adoption of SGIP projects, particularly for the capacity of the system that offsets low-income tenant load. GRID Alternatives concurs, and it recommends Step 1 and 2 levels for projects in Steps 3 and 4.

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[35] The developer cap applies to total incentives awarded to any energy storage project developer. See, D.16-06-055, conclusion of law 32.

[36] CSE comments at 1-2.

[37] CalSEIA, Tesla, Joint Storage Parties, CESA, and GRID Alternatives take this position. ORA in reply comments suggests considering this proposal.

Tesla recommends an enhanced incentive for residential customers in the SGIP Equity Budget. The Joint Storage Parties recommend that the Step 3 incentive level for the SGIP Equity Budget be set at the Step 1 incentive level. In reply comments, GRID Alternatives supports the proposal to set higher incentive levels for the SGIP Equity Budget. CESA also concurs in their reply comments.

PG&E opposes these proposals. PG&E suggests that the current incentive level for Step 3 is high enough to garner interest from developers, and that the SGIP Equity Budget is sufficient in and of itself to guarantee developments in disadvantaged communities.

Absent information demonstrating that existing incentive levels are insufficient, we decline to adjust incentive levels in this decision. We do, however, recognize projects eligible for the SGIP Equity Budget may face different economics than the general market, so we establish a process for adjusting incentive levels, as described below.

2.1.7.2. Process For Requesting a Change to the SGIP Equity Budget Rules

Several parties recommend that the Commission adopt a streamlined process to adjust the rules governing the SGIP Equity Budget. The rationale supporting this position is that SGIP will sunset no later than the end of 2020 and because it is difficult to know whether the program, as adopted today, is most effectively designed to achieve the objectives.[38]

[38] *See* reply comments of Bosch at 5 ("if, after the final steps are depleted in the general market and the SGIP program is within one year of the end of its legislative authorization with customers still waiting to apply, the Program Administrators should be permitted to file Advice Letters requesting that such DAC funds be opened up for use at the final step level by general market (i.e. non-DAC) customers").

There are numerous examples where the Commission has established processes for making specific programmatic changes to account for changing or unexpected conditions, and we elect to do so here. In general, the Commission may make changes to the rules for the SGIP Equity Budget at any time on its own motion, and we may do so in the future if it is apparent that the SGIP Equity Budget is not meeting the goals we set out for it as outlined in this decision.

Notwithstanding that, given that SGIP funding is authorized only through 2020, a systematic streamlined process for the consideration of changes to the SGIP Equity Budget is warranted. A streamlined process can also reduce the program administrative costs for the PAs and Energy Division staff.

Accordingly, the following process will govern each PA's management of the program.

- If four months passes with no reservation from a PA's Equity Budget for a given incentive Step, while energy storage projects not eligible for the SGIP Equity Budget continue to reserve incentives, this will constitute a triggering event to consider a higher incentive level.
- If triggered, the PA that faced the triggering event may file a Tier 3 advice letter proposing changes to its individual SGIP Equity Budget to encourage customer participation in the program. The Energy Division may also prepare a draft resolution on its own motion to propose changes to the rules governing the SGIP Equity Budget for that PA if the automatic consideration is triggered and the PA in question has not filed an advice letter within 45 days of a triggering event.

2.1.7.3. SDG&E "SolarAll" Program

In its comments on the ACR, SDG&E sought clarification from the Commission that its efforts to pair energy storage with renewable energy projects it plans to develop as part of its "SolarAll" program would be eligible for SGIP

Equity Budget funding.[39] In reply comments, CESA argues that SDG&E's request for clarification is out of scope and more appropriately addressed in R.15-03-011 (the Commission's energy storage rulemaking). CESA also argues that community solar projects themselves may not be eligible for SGIP funding as such projects are not customer-sited.[40] Tesla's reply comments generally argue for consideration of SDG&E's proposal.[41]

At this time the Commission takes no position on the clarification sought by SDG&E that storage related to its potential "SolarAll" projects may be eligible for SGIP. We remind SDG&E that it may apply for status as an SGIP developer and may apply for SGIP funds so long as the project it is developing conforms with SGIP rules.

3. Grid Services

The June 2, 2017 ACR also proposed program eligibility criteria for energy storage systems aimed at further aligning the operation of SGIP-funded energy storage systems with conditions on the electric grid. Parties' comments on the proposed eligibility requirements for SGIP energy storage projects highlight the importance and complexity of this issue. We will consider these comments later in this proceeding as we learn more about how SGIP energy storage projects are performing under the existing rules and as new tariffs and wholesale market opportunities are developed for energy storage resources. No changes to the operational requirements for SGIP energy storage systems are made at this time.

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[39] SDG&E comments at 2.

[40] CESA reply comments at 10.

[41] Tesla reply comments at 8-10.

However, this decision reiterates the intent of the Commission that SGIP energy storage projects provide benefits to ratepayers – such as reduced demand during system peak hours and contributing to the state's greenhouse gas reduction goals – even as the program supports market transformation of this technology.

To that end, we adopt the following next steps for a workshop and party discussion concerning the operational performance of SGIP energy storage systems in 2016 and the implications of that performance for future years. The Assigned Commissioner may release a ruling after the workshop and party discussion seeking comment on changes to the operational requirements for SGIP energy storage systems in light of those discussions. We envision Energy Division and parties to conduct additional work on this topic according to the following schedule:

- September, 2017: Final 2016 SGIP Energy Storage Impact Evaluation Report is published and distributed to the R.12-11-005 service list by Energy Division.[42]
- October-November, 2017: Energy Division hosts a workshop to discuss the findings of this 2016 report.

4. Comments on Proposed Decision

The proposed decision of Commissioner Rechtschaffen in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on ______________, and reply comments were filed on _____________ by ___________________.

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[42] The report will be available at the following site once finalized: http://www.cpuc.ca.gov/sgip.

5. Assignment of Proceeding

Clifford Rechtschaffen is the assigned Commissioner and Regina DeAngelis is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. The SGIP Equity Budget is established to ensure that a significant portion of the SGIP budget is reserved for customer projects that meet specific eligibility requirements.
2. The Commission's objective in creating the SGIP Equity Budget is that these investments will achieve the following: 1) bring positive economic and workforce development opportunities to the state's most disadvantaged communities; 2) help reduce or avoid the need to operate conventional gas facilities in these communities, which are exposed to some of the poorest air quality in the state; and 3) ensure that non-profit, public sector and small businesses in low-income communities, as well as, low-income residential customers have access to the clean energy resources incentivized through SGIP.
3. Directing SGIP Equity Budget investments to CalEnviroScreen designated communities does not ensure participation from customers that might not otherwise access SGIP funds.
4. The top 25% most disadvantaged communities as defined by CalEnviroScreen do not include all low-income communities.
5. It is unclear the extent to which low-income residential customers will invest in energy storage.
6. The SGIP Equity Budget will consist of 25% of the energy storage budget incentives, which results in a total Step 3 Equity Budget of approximately $28.75 million.
7. The developer cap is an important SGIP rule.

8. A streamlined process to make changes to the SGIP Equity Budget incentive levels is reasonable and consistent with past Commission actions.

9. These changes to the SGIP will take effect beginning with SGIP energy storage Step 3.

Conclusions of Law

1. The Commission should create the SGIP Equity Budget to ensure that disadvantaged and low-income communities in California benefit from clean energy programs.

2. For the purpose of the SGIP Equity Budget, a low-income community should be defined in the same way as section 39713(d)(2) of the Health and Safety Code.

3. For the purpose of the SGIP Equity Budget, low-income residential housing should be defined in the same way as section as section 2852 of the Public Utilities Code.

4. For the purpose of the SGIP Equity Fund, local governmental agency should be defined as any entity described by Public Contracts Code § 22161(f).

5. For the purpose of the SGIP Equity Fund, state governmental agency should be defined as any entity described by Government Code § 11000.

6. For the purpose of the SGIP Equity Fund, education institution should be defined as any institution that would otherwise be eligible for funding through the California Clean Energy Jobs Act (Proposition 39), or a college or university accredited to operate in California.

7. For the purpose of the SGIP Equity Fund, non-profit organization should be defined as an organization registered and in good standing with the California Secretary of State as a domestic non-profit entity.

8. For the purpose of the SGIP Equity Fund, small business should be defined as an independently owned and operated business as defined by the Procurement Division of the Department of General Services.

9. A streamlined process should be established to consider changes to the incentive levels for projects that qualify for the Equity Budget.

10. The Commission should consider higher incentive levels and other changes if a triggering event occurs, such that no reservations in a PA's Equity Budget have been made over four months, during which time energy storage projects that are not eligible for the Equity Budget have reserved incentives from the same PA at the same incentive level.

11. The Energy Division should have the authority to change the SGIP Equity Budget on its own motion via a Resolution.

12. The PAs should have the authority to seek changes to the SGIP Equity Budget via Tier 3 advice letters.

O R D E R

IT IS ORDERED that:

1. The Self-Generation Incentive Program (SGIP) Equity Budget will be administered by the Program Administrators, Pacific Gas and Electric Company, Southern California Edison Company, Southern California Gas Company, and the Center for Sustainable Energy on behalf of San Diego Gas & Electric Company , in the following manner:

- Eligibility:
    - State and local government agencies, educational institutions, non-profits and small businesses, as defined in Conclusions of Law 4 through 8, are eligible for the incentives if they are located in either: census

tracts determined by CalEnviroScreen to be in the 25% most affected statewide or low-income communities, as defined in Conclusion of Law 2.

  - Low-income residents, as defined in Conclusion of Law 3, throughout each utility's service territory.

- Budget: 25% of the funds collected for SGIP energy storage incentives beginning with Step 3 will be reserved for projects eligible for the SGIP Equity Budget.
- Implementation:
  - For Step 3 and subsequent incentive Steps, each Program Administrator will take 25% of its total energy storage incentive budget (both small residential and large-scale) and create a new SGIP Equity Budget only accessible to eligible customers.
  - The small residential energy storage incentive budgets and large-scale energy storage incentive budgets for Step 3, and subsequent incentive Steps, shall be proportionately lowered to fund the new SGIP Equity Budget.
  - Available SGIP Equity Budget shall be allocated to small residential energy storage projects (projects that are less than or equal to 10 kilowatts in size) or large-scale energy storage projects without limits.
  - The existing developer cap of 20% for each incentive Step will apply to all SGIP projects, inclusive of projects that qualify for the Equity Budget.

2. The Program Administrator, Pacific Gas and Electric Company, Southern California Edison Company, Southern California Gas Company, and the Center for Sustainable Energy on behalf of San Diego Gas & Electric Company, may file a Tier 3 advice letter proposing changes to the incentive levels for projects that qualify for the Self-Generation Incentive Program SGIP Equity Budget if a triggering event occurs, as defined in Conclusion of Law 10.

3. The Energy Division also is authorized to prepare a draft Resolution on its own motion to propose changes to the rules governing the Self-Generation Incentive Program Equity Budget if the triggering event occurs, as defined in Conclusion of Law 10, and the Program Administrators have not filed an advice letter within 45 days.

4. The Program Administrators, Pacific Gas and Electric Company, Southern California Edison Company, Southern California Gas Company, and the Center for Sustainable Energy on behalf of San Diego Gas & Electric Company, shall file a Tier 1 Advice Letter implementing the changes to the Self-Generation Incentive Program Handbook in order to implement the revisions to the Self-Generation Incentive Program adopted herein.

5. Rulemaking 12-11-005 remains open.

This order is effective today.

Dated ____________________________, at Chula Vista, California.